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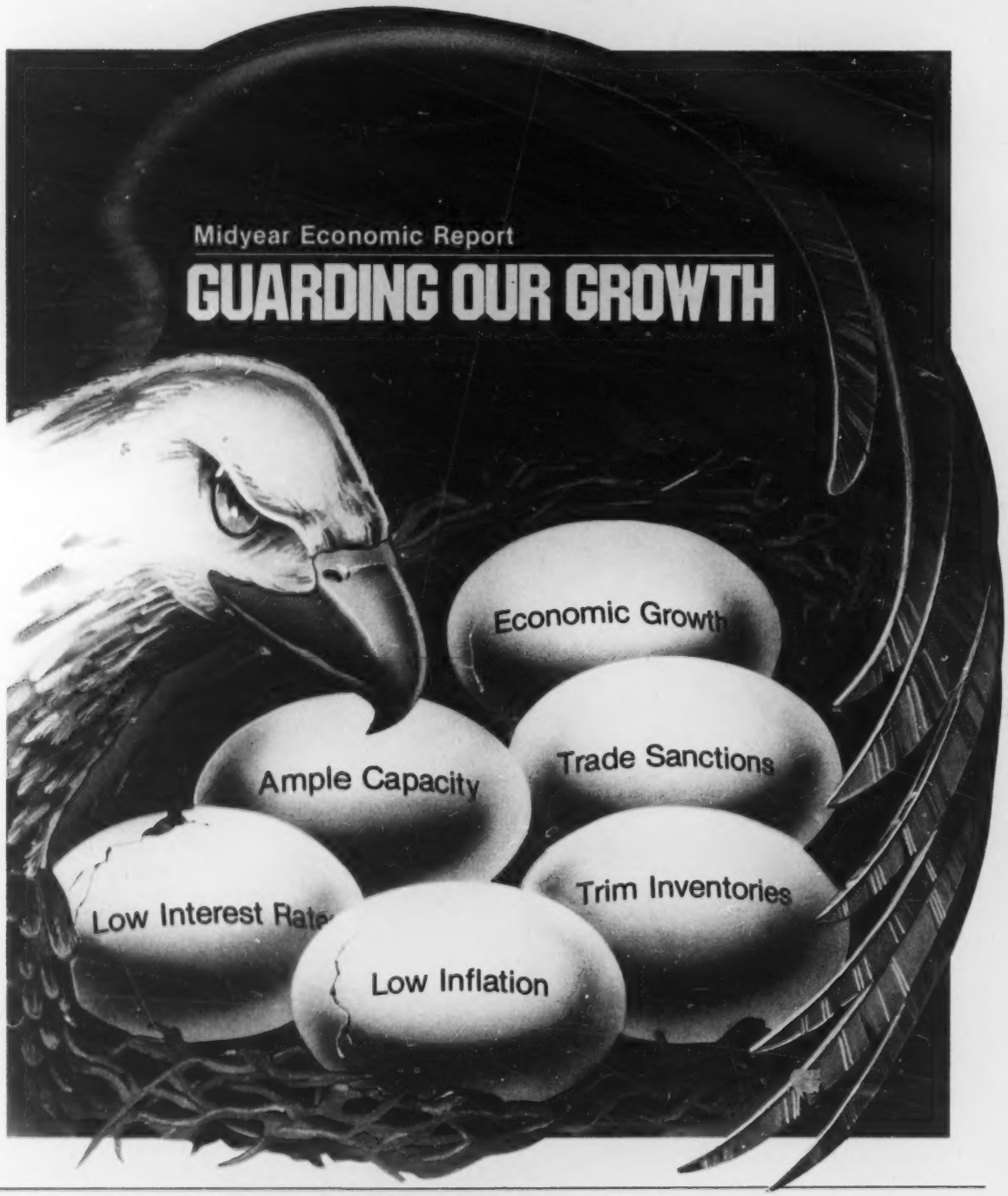
PurchasingWorld®



Getting top management behind purchasing

RPS: where the bar code meets the road

How PMs are going international

PurchasingWorld®

Helping you manage the business of buying

July 1987 Vol. 31 No. 7

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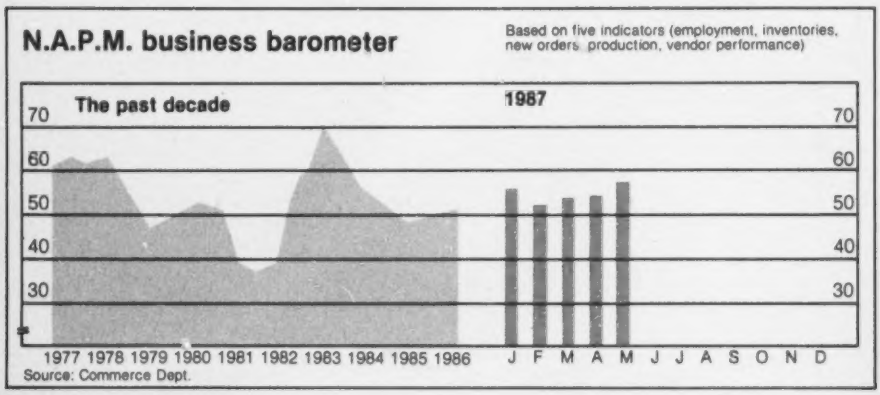
BUSINESS DATATRAK


N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1987
70
60
50
40
30
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986
J F M A M J J A S O N D
Source: Commerce Dept.

KEY ECONOMIC TRENDS

Signs say slow growth

The cautious optimism suggested in *PurchasingWorld*'s midyear forecast in this issue is substantiated by the latest batch of leading indicators.

Perhaps the most encouraging sign is the continuing strength in the N.A.P.M. Business Barometer. A modest advance here has brought this bellwether yardstick of near-term activity to its highest level in months. N.A.P.M. committee chairman Robert Bretz observes that if this pattern continues, 1987 real GNP growth could be near 3.2%.

Also supporting the theory that continued modest gains lie ahead is the apparent turnaround in foreign trade. In the six month period ending 1Q 1987 the physical volume of exports jumped 5% while imports were easing 1%.

Business leaders also see better days ahead. A new Conference Board survey shows a rise in corporate confidence. Looking ahead to summer and early fall, 36% of the survey respondents expect improved conditions vs. the 21% who feel some near-term lull may be in the cards.

Two other pluses: 1) interest rates seem to be topping out after their recent rise, and 2) inventories are still lean.

Industrial distributor sales have also been climbing since the beginning of the year, indicating that production managers are getting ready for some factory gains over the next few months.

Much less encouraging has been the slowdown in consumer buying. Car sales, for example, averaged less than 10 million units at an annual rate over the past month.

The recent easing off in housing permits (see chart) also points to some problems. Note that this lead indicator of future housing starts has been falling since January.

This same analyst also points out that other forms of construction are holding up fairly well—as witnessed by the overall contract award index which remains modestly above the levels of late 1986 and early 1987.

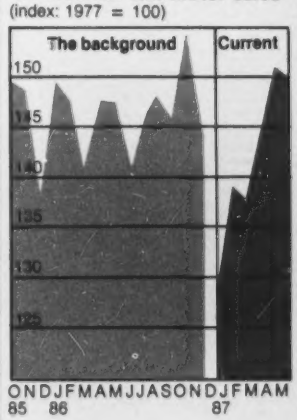
Also on a hopeful note is the turnaround in capital goods orders (see chart). Figures are still far from robust, but there's increasing hope that current changes could be the start of an upward trend.

One reason is the modest increase in corporate cash flow. Internally generated funds are covering 80% of proposed plant and equipment outlays. Then, too, the turnaround in trade alluded to above, by increasing demand, could also generate new investment interest.

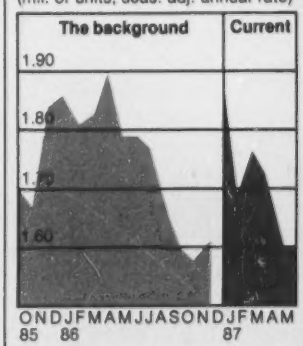
Although such increases in demand won't push factory operating rates much above 80%, the motive to modernize

Leading indicators

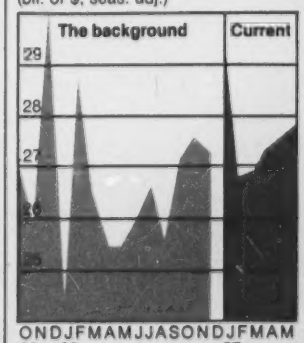
1. Industrial distributor sales
(index: 1977 = 100)



2. Housing permits
(mil. of units, seas. adj. annual rate)



3. Capital goods orders
(bil. of $, seas. adj.)



remains strong.

The nation's top corporate executives confirm this thinking. They are talking about a 3% real increase in capital outlays this year—in contrast to the 3% decline expected just three months ago.

That's not to say that a new capital spending boom is in the making. Far from it. But the turnaround, if it materializes, should keep the economy in the plus column. Equally encouraging is the boost to U.S. competitiveness that this renewed investment implies.

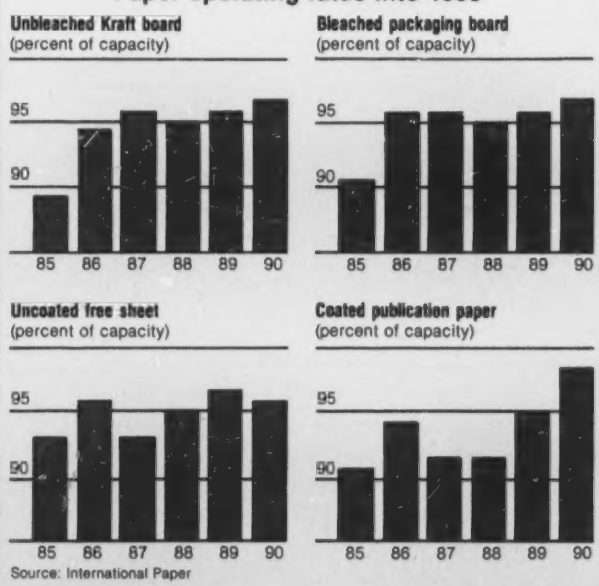
No wrinkles in paper

Figure on good supply-demand balance in the paper industry—not only for 1987 but also for 1988 and 1989.

That's how top executives at International Paper (IP) see the market. Product-by-product operating rates (as supplied by the company) are summarized in the accompanying table. IP also gives these specific comments:

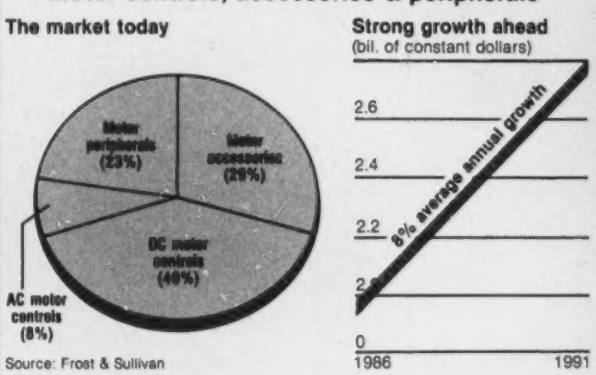
- **Unbleached kraft board:** U.S. consumption should increase about 2.5% this year and slightly less in 1988. Operating rates should hold in the mid-to-high 70s as the decline of the dollar keeps export markets fairly strong.
- **Bleached packaging board:** A strong export market will keep U.S. utilization rates at almost full capacity through the end of the decade. Between 1986 and 1990, the industry will gain the incremental capacity necessary to meet demand through rebuilds and productivity improvements.
- **Kraft papers:** Strength in linerboard markets will continue to reduce kraft paper capacity on those machines that can run lightweight linerboard more profitably. This trend, together with machine shutdowns, has kept operating rates high—and will continue to do so.
- **Uncoated free sheet:** Much of the strong demand in this market is related to computer use which has led to particularly strong growth in the reprographics and forms bond market segments. Operating rates should remain in the 90s.
- **Coated publications papers:** Operating rates should improve as the erosion of the U.S. dollar in world money markets reduces the attractiveness of the American market to foreign producers and opens up foreign markets to U.S. producers.

Paper operating rates into 1990



Source: International Paper

Motor controls, accessories & peripherals



Source: Frost & Sullivan

Motor controls growing out of control?

The motor controls, accessories, and peripherals market is poised for some relatively large gains.

A new Frost & Sullivan study suggests that sales, which hit $1.9 billion last year, could hit $2.8 billion in constant dollar terms by 1991. That's the equivalent of an 8% annual rate of growth.

Included in the report is everything from the precise positioners in computer disk drives to factory lathe clutches. Coverage includes AC and DC motor adjustable-speed controls, servomotor and positioner motor controls, accessories such as tachometers and resolvers, and peripherals such as clutches, brakes, belts, gears, and hydraulics.

The biggest sector—DC motors, where sales hit $770 million last year—should post a 10%+ growth rate. This will be fueled by positioner and servomotor controls rather than the traditional adjustable-speed controls.

AC motor controls ($160 million in 1986) have carved out a significant niche in large horsepower motors. But with factory equipment designed for them predominantly produced in 1984-86, strong growth here will have to wait for another spending cycle—probably at the end of the current decade.

Encoders, used with digital-based control systems, are the outstanding accessory product (54% of the market last year). Though they will remain the largest accessory seg-

ment, resolvers (which provide precise position information for servomotors and position controls) will grow faster—doubling in volume over the next five years.

Finally, in motor peripherals, the reliability and low cost of items such as hydraulic drives insures continued use. And clutches and brakes have benefitted from installation as safety devices on production machinery.

CURRENT PRICES

Summertime and the price boosts are easy

The lingering impact of the early 1987 price advance continues to nudge industrial price averages upward. But the overall increase is slowing down. Only a 0.4% boost was racked up over the last month—less than 5% at annual rate.

Also indicative of a slackening off: the considerable number of "declines" and "no changes" noted in *Purchasing-World*'s detailed monthly breakdown. This past month more than half of the 50 regularly monitored items sported steady or lower prices.

Particularly encouraging is the fact that many semi-finished and finished items are down or level. Included are bearings, glass containers, cutting and power driven hand tools, fasteners, bulbs, scales, and internal combustion engines.

The energy sector continues to advance. Gains are reported for home heating oil, residual fuel, diesel fuel, LPG, coke oven products, and gasoline. But the latter (up 0.9%) is deceptive because prices normally rise at this time of year. Upshot: Gasoline declined on a seasonally-adjusted basis.

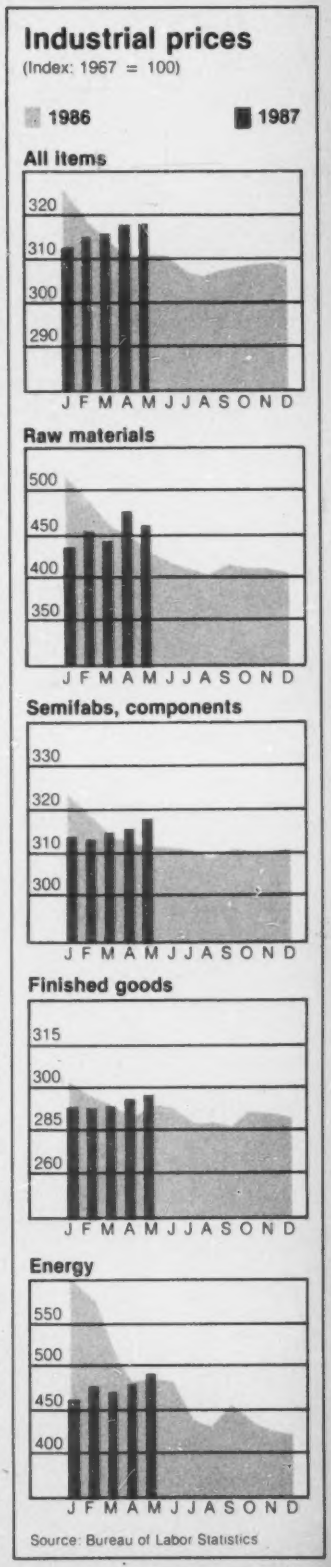
Capital equipment increases were also lower this month. Boosts that were posted in office and store machinery, construction equipment, and textile machinery were partially offset by declines in material handling equipment, farm equipment, and mining machinery.

On the other hand, chemicals—led by organics—rose considerably. This, in turn, created substantial upward pressure in commodity plastics. Yet even in chemicals, there were some exceptions to the rise, notably in fertilizer and synthetic fibers.

An upward tilt was also

This month's breakdown

	Latest level (May)	% change from: Month ago	Year ago
Bearings	355.2	−0.8	−0.2
Bolts, nuts, etc.	278.0	0.0	0.4
Chemicals, inorganic	290.9	−0.2	−1.9
Chemicals, organic	353.0	1.9	8.7
Concrete products	225.4	−0.1	−0.3
Corrugated cartons	294.1	0.0	11.5
Cutting tools, small	293.0	−0.4	0.5
Electric lamps (bulbs)	347.3	−0.1	0.1
Electronic components	202.3	0.0	0.8
Fans and blowers	370.6	−0.2	−0.7
Foundry and forge products	364.1	0.1	−0.1
Fuel oil (residual)	639.9	4.1	34.0
Furniture, commercial	326.5	0.1	3.1
Gasoline	392.4	0.9	3.6
Glass, flat	236.5	−0.6	2.5
Glass containers	397.3	−1.6	−0.5
Gypsum products	334.4	3.1	−7.2
Hand tools	394.4	0.3	3.1
Hand tools, power driven	242.1	−0.2	2.3
Industrial furnaces	402.3	−0.1	2.0
Integrating and measuring instruments	240.7	0.3	2.3
Internal combustion engines	358.9	0.0	1.8
Lubricating oil	351.5	1.5	−6.8
Lumber millwork	328.1	0.5	3.6
Material handling equipment	297.9	−0.5	0.5
Metal containers	360.0	−0.2	−0.4
Metal mill shapes (nonferrous)	308.7	1.0	2.8
Metal tanks	299.1	−0.6	−1.1
Motors and generators	355.2	0.1	1.2
Motor trucks	321.7	−0.6	3.4
Office and store equipment	158.6	0.7	2.7
Paperboard	296.2	0.1	10.1
Paper boxes and shipping containers	285.5	0.2	7.2
Paper office supplies	243.1	−0.4	1.7
Paint	283.4	0.2	2.8
Plastic resins	304.5	1.0	3.0
Precision measuring tools	272.5	0.0	2.1
Pumps and compressors	365.5	0.1	1.4
Refractories	370.5	−0.2	−0.5
Rubber belts and belting	332.8	−1.5	−0.5
Scales and balances	234.0	0.0	1.3
Steel products	352.4	0.1	1.4
Switchgear	291.1	0.1	1.5
Textiles, synthetic fibers	147.1	−0.3	−1.7
Textiles, gray fabrics	153.6	0.3	1.7
Tires and tubes	231.0	−0.5	−1.7
Transformers and power regulators	236.9	0.3	1.7
Welding equipment	303.9	0.0	1.2
Wire and cable	206.3	1.3	−0.2



noted in construction materials as nonferrous wire and cable, metal valves, plastic construction materials, gypsum products, and lumber millwork all contributed to a 0.4% overal increase over the past 30 days.

But the biggest jump of the month came in nonferrous metals which showed the biggest advance since January 1980.

One government spokesman feels these metal boosts may be ready to top out on a combination of sufficient global capacity and level near-term demand—factors which could even bring modest declines in the next few months.

STEEL SCENE

Foreign steel costlier, harder to find

Foreign steel buys are harder to find these days, according to *Purchasing-World*'s latest monthly survey of the nation's top service centers and metal buyers. Only 23% of those buyers now say overseas mills offer lower tags—the lowest such reading in years. More significant, all 23% add that the savings are modest.

Distributors responding to the latest Steel Service Center Institute survey also indicate moderate price breaks. In the carbon steel sector, only 18% say foreign quotes are cheaper—vs. 45% in 1986—again, the lowest figure in years.

The narrowing of the import price advantage to service centers is equally apparent in stainless steel where the 54% citing price advantages compares to the 100% 12 months ago. Also for the first time in years, no one puts the savings in stainless in excess of 10%.

Several reasons are suggested for the fading overseas advantage: the weaker dollar, which has forced foreign mills to boost their quotes to U.S. buyers, and U.S. trade quotas and antidumping moves.

All indications are that these trends will continue. Only 10% of queried steel buyers now say they plan on increasing their dependency on foreign metal over the next six months.

This trend is further confirmed by actions of overseas sellers themselves. At latest report, 54% of surveyed American buyers felt that foreign competitors were now less aggressive in seeking domestic business. Not one overseas mill was categorized as being more active.

Less foreign competition isn't the only indication of a firming steel

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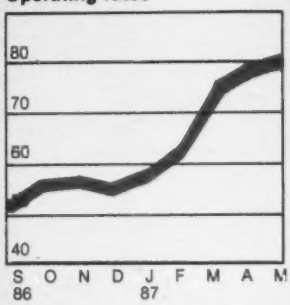
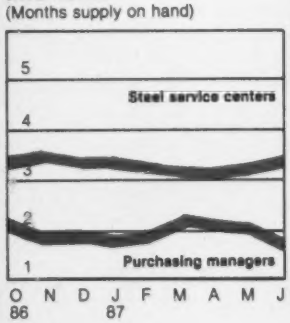
BUSINESS DATATRAK

Steel

Operating rates

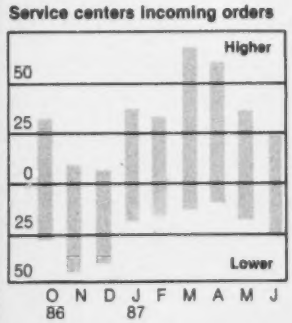


Inventories
(Months supply on hand)

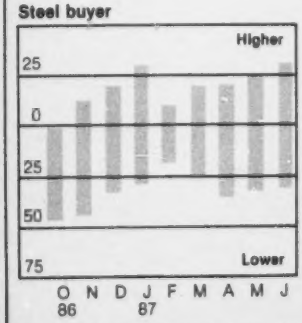


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyer



Import prices
(Compared to domestic)

Steel buyers

ABOVE 13%
SAME 64%
SLIGHTLY BELOW 23%
SUBSTANTIALLY BELOW 0%

Service centers (carbon)

ABOVE 11%
SAME 71%
5-10% BELOW 14%
10-20% BELOW 2%
OVER 20% BELOW 2%

Source: Steel Service Center Institute, NAPM Steel Buyers Committee

market. Further confirmation comes from service centers which now seem reconciled to paying higher prices for their steel over the next six months. Specifically, 77% expect to be paying more—and 10% put the projected increase at more than 5%.

These current and future hikes in replacement steel costs could cause some pass-along trouble for service centers. As Andrew G. Sharkey, SSCI president, put it, centers with fixed automotive contracts are being hard pressed to maintain profitability as buying prices rise and selling prices are locked in by long-term contracts.

Another interesting finding coming out of the latest buyer and distributor surveys: Both groups expect a leveling off in steel demand. On the buyer front, the 33% who expect to increase their intake of steel over the next three months is virtually offset by another 30% who anticipate declining receipts over this period. This is the first time since last November that increases haven't predominated. This could be one reason why another survey taken at SSCI's annual meeting is calling for only a 72-million-ton steel shipment year—a figure that suggests a flat second half.

Even with this leveling off, buyers remain concerned about availability. Only about half of those queried think they'll be home free in coming months. Major worries center around coated, cold-rolled, and hot-rolled sheet.

This could be a reflection of the current situation rather than what will be happening. It's hard to see any further tightening in view of 1) increasing domestic production, 2) a low industry operating rate, and 3) a possible summer weakening in autos and construction.

PROCUREMENT STATUS

Minimal wait gains

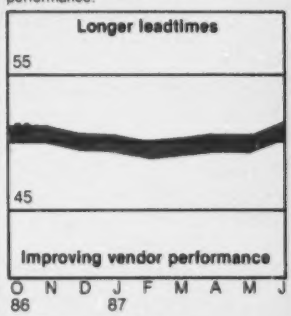
Some problems persist, especially in steel, where sheet and plate are snug in some areas of the country, and in chemicals such as styrene.

All this is showing up in *PurchasingWorld*'s leadtime index which edged above the neutral 50 mark to 51 for the third consecutive month. But the small imbalance suggests only fractional deterioration in the overall procurement climate.

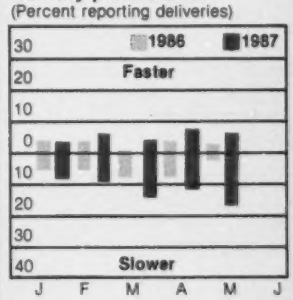
A closer look at the index itself is also reassuring. While a few items have stretched, the majority of the 150 items monitored on a regular basis

Monthly procurement status report

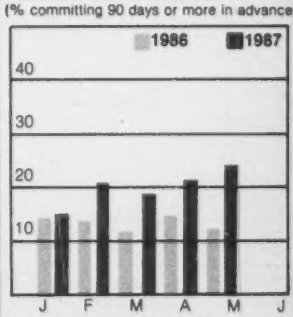
Leadtime index
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



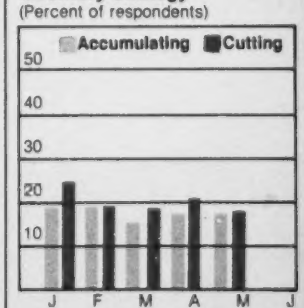
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days or more in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

has remained unchanged from January levels.

The same pattern is indicated by the latest N.A.P.M. Business Committee survey on speed of delivery. Those reporting slowdowns outnumber those noting speedups. But 77% note little change from earlier levels.

For more reassurance, look at purchasing managers' strategies. At latest report, 52% were ordering production materials 30 days or less in advance vs. 54% two months earlier.

Also indicative of a "no-sweat" situation: Most PMs are keeping inventory holdings steady, despite slowly rising production schedules, rather than laying in a safety stock.

Why are industrial buyers confident? The few items that are snug today may not remain so. This is true of steel where demand is ready to level off. The tightness in petrochemicals will also fade as additional supplies come on stream.

The most encouraging sign is the relatively low overall factory utilization rate. Given projected capacity gains which are expected to offset a slow increase in production, operating rates should remain in the low 80% range.

As one PM sums it up, "It's still a buyers' market and it will remain that way into 1988."

Leadtimes and availability

Chicago: Delays in steel plate are now 12-15 weeks, structural is out to 4-6, and aluminum is out to 18-20 for coil and sheet, and to 12-16 for heat-treated and common alloy plate.

Cleveland: Weekly delays include: alloying materials (on demand), glassines and greaseproof papers (4-5), hardwood and softwood lumber and skids (1-3), corrugated cartons, folding boxes, and polyethylene and PVC resins (2-3), and 2-ply fiber drums (2).

Los Angeles: Weekly leads are: galvanized steel (12-14), aluminum tubing (4-6), grey iron castings (6-8), brass castings (8-10), pumps (10-12), domestic fasteners (7-9), foreign fasteners (16-18), stainless steel coil (14-16), standard bearings (20-24), standard valves (10-12).

Houston: Galvanized steel coils are in to 12 weeks. Paper and packaging are unchanged at 10-60 days. Holding steady (in months) are pumps (4-6), low voltage electric motors (3-6), stainless steel fasteners (1-3), structural steel (2-3), and boilers (5-11).

Philadelphia: Corrugated boxes have edged out to 4-5 weeks. Wooden pallets are out to 1-2 weeks. Holding steady (in weeks) are xerographic paper and towels and tissues (½), and multi-part printed forms (6-8).

Pittsburgh: Copper mill products are in to 4 weeks but zinc stays at 3. Most alloying materials are at 2 weeks. No sweat in steel strapping and plastic packaging (2-3), seals (1-2), polyethylene and PVC resins (5-6), drums (1), and corrugated boxes and lumber (3-4).

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BUSINESS DATATRAK

Leadtimes (in weeks)	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	11	8	10
Plate (Phil)	10	3½	3½
Plate (Chgo)	13½	9	4½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	11	11	4½
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	12	12	6½
Structurals (Chgo)	5	4½	4½
Structurals (Hous)	11	11	17
Tubing (Phil)	5½	5½	5½
Grey Iron Castings (LA)	7	7	9
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	16	16	16
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	4½	4½	9
Motors (Phil)	9	9	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10

	Now	Month ago	Six months ago
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	2½	2½
Plywood (Chgo)	3	3	3
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2½	2½	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	2	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3

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	Now	Month ago	Six months ago
Shrink Film (Chgo)	6	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	½	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	19	13	11
Aluminum Plate (Chgo)	14	12	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	19	13	11
Brass Castings (LA)	9	9	9
Brass Rods (Chgo)	7½	7½	9
Brass Sheet (Chgo)	11	11	5
Brass Tube (Chgo)	13	13	7
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	4	6	6

	Now	Month ago	Six months ago
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	3	3	3
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	48
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	8	8	9
Fasteners, Std. (Phil)	3	3	3
Heat Exchangers, Carbon-alloy Steel (Hous)	21	21	21
Heat Exchangers, Hi-pressure (Hous)	24	24	26
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	21	21	24
Pumps (LA)	11	11	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	4	4	17
Welding Supplies (Hous)	5	5	5

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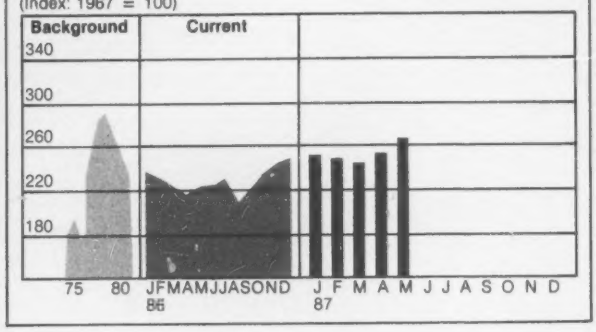
BUSINESS DATATRAK

Raw material price barometer

Latest month 269.7
Month before 253.6
Year ago 221.3

(Index: 1967 = 100)



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	23.95
Steel, bars, Pitts., cwt.	16.50	16.50	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	18.25	18.25	18.25
Steel, plates, H.R., Pitts., cwt.	18.25	18.25	18.25
Steel, sheets, C.R., Detroit, cwt.	26.90	26.90	25.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.700	.655	.585
Antimony, N.Y., dealer, lb.	1.18	1.15	1.32
Beryllium-copper, cost ingot, lb.	5.65	5.65	5.35
Brass, red, 85%, [sheet], lb.	1.37	1.33	1.32
Brass, yellow, [sheet], lb.	1.32	1.28	1.27
Cadmium, N.Y., dealer, lb.	1.60	1.20	1.05
Copper, electrolytic, wire bars, refd., lb.	.73	.69	.68
Copper sheet, over 24 in., lb.	1.46	1.42	1.41
Lead, common, N.Y., lb.	.350	.330	.205
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	310.00	310.00	244.00
Molybdenum, oxide, dealer, lb.	2.85	3.05	2.70
Nickel, cathode, dealer, lb.	2.17	1.92	1.93
Platinum, dealer, oz.	582.00	616.00	443.00
Silver, N.Y., oz.	7.82	8.81	5.47
Tin, N.Y., dealer, lb.	3.20	3.19	2.57
Zinc, Prime West, East St. Louis, lb.	.45	.45	.38
Zinc, die casting alloy, No. 3, lb.	.495	.465	.445
PAPER			
Uncoated book #3 offset, ton	860.00	860.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.68	16.44	16.34
Shipping sacks, ton	390.00	390.00	390.00
Solid bleached paperboard, ton	620.00	620.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	350.00	350.00	290.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.240	.241	.237
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.13	1.05
Cotton middling, 1", N.Y., lb.	.682	.630	.655
Printcloth, 48", 80x80, N.Y., spot. yd.	0.98	1.00	0.70
Army duck, 37", 13 oz., yd.	1.445	1.445	1.480
Blended printcloth, 64", 78x54, yd.	.94	.97	.80
20s combed yarns	1.88	1.82	2.05
Wool 64s, Staple, lb.	2.70	2.70	1.90
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	105.00	105.00	90.00
Benzene, petroleum, tanks, Houston, gal.	2.50	2.52	.820
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.91	.91	.91
Methanol, snv., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.28	.28	N.A.
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.27	.27	.27
Polyethylene resin, low density liner film grade (market place), lb.	.315	.315	.290
Polypropylene, homopolymer grade (market price), lb.	.390	.370	.340
Polystyrene, general purpose grade (market price), lb.	.48	.47	.31
Polyvinyl chloride, pipe grade (market price), lb.	.325	.325	.285
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.52	.42	.21
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	134.50	145.00	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.77	.77	.73
Xylene tanks, gal.	.85	.85	1.36
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	325.60	325.51	328.65
Lumber 2x2 pine, mbf, cl	319.95	324.56	321.60
Plywood, plyform, ⅜", msf, cl	577.85	577.50	595.65
Plywood, ⅜", msf, cl	381.60	382.00	387.55
Cement, bulk, ton, tl	63.50	63.50	66.70
Sand, ton, cl	7.14	7.14	6.60
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	49.00	48.53	47.82
Crushed stone, 1½", ton, cl	8.29	8.06	7.98
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.90	0.89	0.83
Gypsum sheathing, ½"x1"x8", msf, tl	227.00	215.25	217.52
Brick, common, per thousand, tl	192.82	186.67	184.96
Asphalt paving, AC-20	127.31	125.02	158.08
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.15	7.08	7.09
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	17.00	17.25	9.35
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.50	19.50	15.40
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.545	.570	.580
Gasoline, 94 oct., reg., Chi., tank car, gal.	.553	.548	.540
Heating oil, No. 2, Chi., bulk, gal.	.530	.518	.405
Heating oil, No. 2, N.Y., bulk, gal.	.510	.510	.395
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.510	.500	.360
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.245	.245	.270
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	83.00	80.00	70.00
Steel, No. 1 hvy., dlvd., Chi., ton	76.00	73.00	70.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.650	.625	.590
Copper, No. 2, East, wholesale buy, dlvd., lb.	.565	.545	.510
Brass, red, East, wholesale buy, dlvd., lb.	.610	.585	.550
Brass, yellow, East, wholesale buy, dlvd., lb.	.345	.345	.300
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.435	.415	.290
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.475	.455	.320
Zinc, old, East, wholesale buy, dlvd., lb.	.200	.200	.150
Lead, clean solids, East, wholesale buy, dlvd., lb.	.230	.215	.115
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	45.00	40.00	15.00
Paper, old corrug. box, dlr., N.Y., ton	25.00	15.00	12.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.120	.120	.095
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.23	.23	.11

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Midyear economic report:

our growth

This American eagle has something to guard. The United States is still the largest market for the world's goods.

The state of that economy is reflected in PurchasingWorld's midyear forecast.

- *In the opening article, Dr. Louis Paradiso points to specific indicators which show that the five-year-old recovery will continue.*
- *Supporting his view is a McGraw-Hill study of corporate executives which is positive, but cautions that prices will be rising a bit faster than before.*
- *A Data Resources Inc. (DRI) survey of product-by-product price trends puts price increases at 2.4% for 1987.*
- *Three top econometric models point to continued modest GNP growth.*
- *Buyers' outlook survey of PurchasingWorld readers says that, although 1987 is not a boom year, it will turn out pretty well.*

Compiled by Robert S. Reichard, executive editor

Attacking the twin deficits

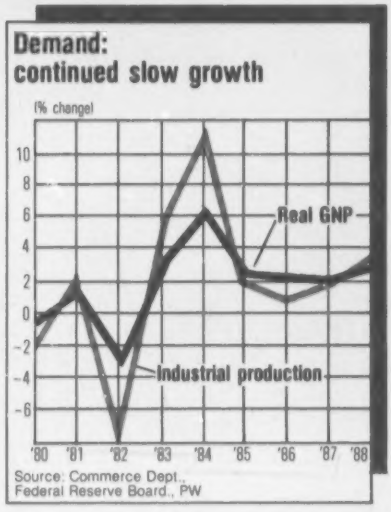
Don't write off the nearly 5-year-old business recovery. Although things aren't booming, there are enough positive factors around to assure at least another 6-12 months of basic economic improvement.

That's Dr. Louis J. Paradiso's midyear message to *PurchasingWorld*'s readers. The veteran economist feels that too much has been made of the federal and trade deficits. While not belittling them, he notes that there are some encouraging signs including trim inventories, relatively low interest rates, tolerable price advances, restrained pay hikes, ample capacity, and an unemployment rate of less than 6.5%.

According to Paradiso, these factors should be enough to guarantee continued growth. But he adds that it will be a modest growth—with GNP averages rising only 2-3% at annual rate over the next few quarters.

As far as inflation is concerned, Paradiso continues to downplay all the talk about a new spiral. "It would be unrealistic to expect a repeat of last year, when the combination of sagging oil and a flood of cheap imports made for stable or even lower tags. But on the other hand, price increases so far this year have been moderate—and there's nothing on the horizon to suggest any near-term change."

There are possible danger spots. A freefalling U. S. dollar, for example, would certainly hurt. So would any move toward all-out protectionism or consumer retrenchment. But odds of that happening are slim, says *PurchasingWorld*'s economic consultant.



Paradiso also points out that 1988 is an election year. If things turn soft, there will be increased government spending and easier money.

Similar to past years, gains will be relatively uneven. Again, the high-tech and service sectors will lead the advance. But for the first time in years, some of the smokestack industries will also show some improvement—on a combination of better management, anti-dumping moves, improved productivity, and a weaker U.S. dollar.

Most metal industries, for example, are moving into the black again. And many domestic machinery lines have become competitive as currency fluctuations help push foreign-made equipment up by as much as 15-20% over last year.

Midyear Economic Report

It's a time, says Paradiso, when PMs will have to be on their toes. Aside from changing U.S.-overseas price relationships, other areas requiring close monitoring will include inventories (as consumer demand becomes harder to pinpoint) and government moves (particularly in the international sphere).

But even with possible shifts, the broad near-term trend is becoming clearer. Major segments of the economy through early next year are expected to shape up along these lines:

■ **General economic growth:** Real gains won't show too much variation. The actual quarter-by-quarter projected advances at annual rate—3Q 1987, 2.5%; 4Q 1987, 3%; 1Q 1988, 3.3%; and 2Q 1988, 3.2%. For all of 1987 the advance will be near 2.5%—and much the same in 1988.

Industrial production will fare better—partly because some of the output lost to imports will be coming back to domestic producers in the months ahead. Next year's average gain is projected to be 3.3%, which represents a modest improvement over the miniscule 1% increase reported in 1986.

■ **Prices:** The modest acceleration alluded to earlier will change major inflation yardsticks. The all-inclusive GNP deflator, for example, should move up at a 4% annual rate over the rest of the year—and maybe approach a 4.5% pace by early 1988. That compares to a 2.6% average increase last year.

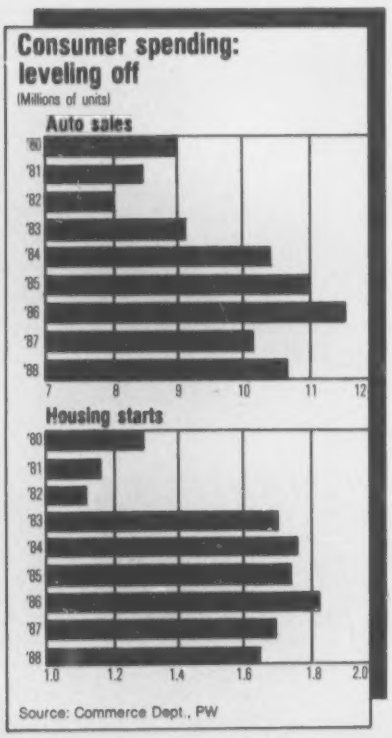
Somewhat faster acceleration is also seen for industrial producer prices where oil declines last year made for a surprising 3.6% decline. This year could bring a 2.7% increase—a swing of more than six percentage points. Even so, the advance (since it does not include services) would be less than anticipated for the GNP deflator. A slightly more robust 3.6% increase in industrial producer prices is projected for 1988.

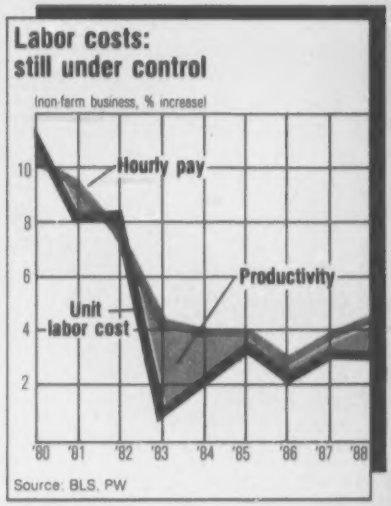
Also reassuring is the fact that any additional production requirements in late 1987 and 1988 will be offset by new capacity coming on stream. Lest there be any doubt on this latter point, take a look at new McGraw-Hill capital spending projections (see page 51). They suggest that American industry will be shelling out $405 billion for new plant and equipment this year—probably enough to allow for a 2% increase in overall new potential.

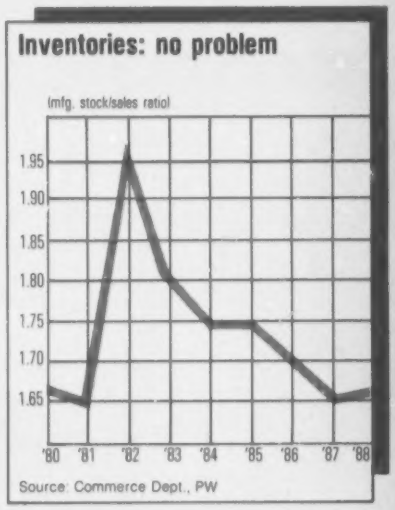
■ **Profits:** Somewhat higher prices and volume will contribute to better bottom lines. After-tax earnings could reach $138 billion this year—up some $4 billion from last year.

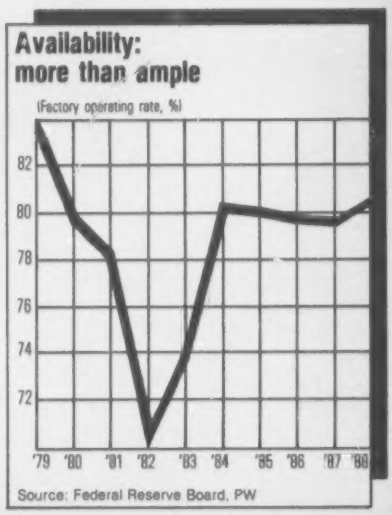
After-tax margins of all manufacturing firms should also be up slightly—hitting 4% in terms of sales vs. the 3.8% readings for 1985 and 1986. And while smokestack industries will continue to trail the all-industry average, overall figures in this sector should compare quite favorably with the levels of the past few years.

■ **Interest rates:** Recent advances have just about run their course. One reason: Any further significant increases would put a crimp in the









Midyear Economic Report

current business climate.

Best bet: The prime rate will remain around 8.25-8.5% through yearend. Even so, averages for 1987 as a whole are projected to be under 8%—below the average of 1986. The same goes for 3-month T-bills which should average out near 5.7% for all of 1987.

■ **Housing:** Mortgage rates have already risen in line with higher money costs. While advances have been modest (about 1%), they are already tending to put a ceiling on new housing starts, which will amount to about 1.7 million units in 1987 vs. 1.82 million in 1986.

■ **Consumer spending:** Again, nothing spectacular is anticipated. Aside from the drop-off in housing, there is little to indicate any significant strength in the crucial auto sector. Part of this reflects last year's big fall buying wave in response to industry incentives. Another factor could be already-high consumer debt.

Consumer prices, meantime, will probably follow the GNP price deflator trend since here, too, services are a major element. But with food tags expected to remain under control (up only 2-4% this year), the average 1987 gain in cost-of-living totals is estimated at only 4%. And for next year, the acceleration will be slight—to only 4.5%.

■ **Labor costs:** The prognosis is good here, primarily because union demands remain relatively subdued. As shown in the chart, pay hikes in the non-farm sector will be up only 1% in the 1987-88 period—to 4%.

Add in a 0.5-1% productivity offset, and unit labor costs will be up only 3-3.5% over the next 4-6 quarters—hardly enough to set off any new cost-push spiral. And in the crucial manufacturing area, the rise in unit labor costs will probably be even less, for factory productivity has been doing well, rising at least one percentage point above the overall non-farm business average over the past few years.

■ **Inventories:** While the aggregate volume of stocks is likely to rise a bit, it will only be in line with anticipated sales gains. The upshot is that stock/sales ratios will remain low. For all business holdings it will continue to back and fill in the 1.65-1.66 range through 1988. This is 15% under the 1.95 peak in 1982.

This has to be regarded as a positive sign. American industry is apparently not repeating the mistakes of earlier recoveries—adding more stock than justified by sales.

But another factor could be better management—with assists coming from just-in-time stocking techniques and computer controls. On the latter score, the electronic revolution now enables factory foremen to control the flow of production supplies—eliminating many of the miscalculations of previous business cycles.

■ **Capacity and new capital spending:** Projections for a continuing under-80% overall factory operating rate attest that there is more than enough production potential to go around. While some snugness has recently appeared in paper, plastics, and steel, this should be temporary.

In any case, auto sales should average out at only 10.2 million units this year—off substantially from the 11.6 million that sold in 1986. Some improvement (to 10.7 million units) is expected for 1988.

Overall consumer spending, however, should rack up a 2-2.5% gain in real terms this year as personal incomes rise a similar amount and the overall savings rate (savings as a percent of disposable income) drops to 3.5%, under the already-low 3.9% reading of last year.

■ **Foreign trade:** The dollar weakness is finally beginning to have some impact—at least on the export side, where outgoing shipments have tended to rise in recent months. And while dollar import totals are still climbing, this is solely due to higher import prices. The point to keep in mind: The physical volume of imports begins to show signs of peaking.

As such, this year's trade shortfall should drop to near $155 billion—off $15 billion from last year. And next year, another $20 billion decline is possible. Even so, that's still too high for comfort when you consider that as recently as 1983 the figure was only $69 billion.

■ **Federal budget:** Some modest improvement is also seen here. Right now, the feeling is that the total red ink figure should shrink to $175 billion when the dust finally settles on fiscal 1987—off some $45 billion from last year's horrendous level. Reasons: a combination of smaller outlay gains (as general revenue sharing ends and farm payments are pared down) and a fairly large 9% increase in total federal receipts.

And even more improvement (to $140-150 billion) is hoped for in fiscal 1988. Again, that's still extremely high—but enough of a gain to reassure foreign investors and governments that the U.S. is finally moving to get its house in order.

IT'S YOUR LAST CHANCE
TO ENTER THE 1987 PURCHASINGWORLD CRYSTAL BALL FORECASTING COMPETITION

This forecast section may hold clues to help you win PW's Crystal Ball Forecasting Competition. The trick is to accurately forecast how the 1987 economy will perform in seven leading indicators—six months before the year ends!! Get out your personal crystal ball or lucky rabbit's foot and try your hand at predicting the future. You may even win a prize for your efforts.

Entry deadline is July 31, 1987. Entry form on page 106 of this issue.

Midyear Economic Report

Corporate eagles eye future gains

The nation's top business executives are making some midcourse adjustments to their overall 1987 projections.

In general, two patterns emerge: 1) Demand, while still expected to remain positive, will be somewhat less robust than originally envisioned, and 2) prices will rise a bit faster.

But the new findings—based on a just-completed McGraw-Hill survey—suggest an improvement in another key area: 1987 plant and equipment spending. As of now, respondents are planning on a 3.3% increase in current dollar terms. That's considerably better than the 0.4% increase anticipated by these same executives at the beginning of the year.

This capital spending figure doesn't look that bad even after correcting for inflation. Subtract the 3.3% increase in plant and equipment costs suggested by the survey and you still end up with a 1987 physical volume on a par with a year ago. Contrast that to six months ago when a 3% decline in real capital spending was anticipated and the improvement is clear.

Why the improvement? Most analysts attribute it not so much to a need for new capacity (the majority of firms is still operating well under preferred levels) but to the need to modernize and become competitive, especially against foreign suppliers.

The need to remain competitive also shows up in the modest price increases currently anticipated for 1987. There has been some slight acceleration in the durable goods sector. But the current estimated durable increase for the year (3.3%) isn't much above the 2.2% prediction made six months earlier.

Non-durable goods tags could actually decelerate—with the average gain for the year put at 4.8% vs. 5% previously. But there are a few exceptions. The paper and textile industries are expected to show price hikes above those previously anticipated.

The price outlook in non-manufacturing, meantime, also suggests some modest acceleration. The current estimated overall boost for the year is 3.3% compared to a 1.4% previous estimate. Here, too, there are a few sectors where deceleration is indicated. Only a 1.6% pickup in electric utility rates is now predicted. The overall (0.5%) advance in rail rates is also encouraging.

A less rosy note is the downward revision noted in 1987 demand projections. Biggest drops here are in durable goods where overall 1987 shipments in real terms are now expected to rise only 1.6%. That's a sharp slowdown from the 5.5% forecast made at the beginning of the year.

Nearly all of the durable goods industries are projected to share in the downgrading. Two exceptions are steel and nonferrous metals, where healthy 6.7% and 9.4% advances, respectively, are now seen for the current year.

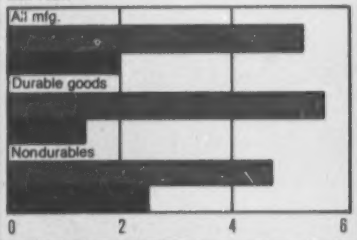
A similar downgrading is noted in the non-manufacturing sector where an earlier 4.7% estimated increase has given way to a 2.3% reading. The biggest deceleration is noted for textiles. An earlier 7.0% anticipated gain has dropped to 1.8%.

What does it all add up to? Businessmen are obviously a bit more cautious than they were at the beginning of the year. But by and large they still believe that 1987 will turn out to be a tolerably good year. And they are also giving some preliminary indications that they think 1988 will be the same.

Top managers take a second look at '87

Demand

Now vs. 6 months ago
(% increase)

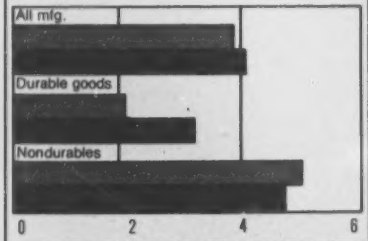


Latest industry estimates

Industry	% change 87/86
Iron & steel	6.7
Nonferrous metals	9.4
Electrical mchy.	1.8
Non-elec. mchy.	−3.1
Fabricated metals	6.7
Instruments	5.3
Stone, clay, glass	4.2
Chemicals	5.0
Paper & pulp	2.8
Rubber & plastic	9.7
Petroleum	0.6
Textiles	1.8
Mining	7.6
Electric utilities	0.3
Communications	5.2

Price

Now vs. 6 months ago
(% increase)



Latest industry estimates

Industry	% change 87/86
Iron & steel	−0.4
Nonferrous metals	2.2
Electrical mchy.	3.1
Non-elec. mchy.	2.5
Fabricated metals	0.5
Instruments	2.4
Stone, clay, glass	2.6
Chemicals	2.0
Paper & pulp	6.4
Rubber & plastic	2.4
Petroleum	4.0
Textiles	3.6
Mining	2.5
Electric utilities	1.6
Communications	−1.5

Source: McGraw-Hill

Midyear Economic Report

Economy still in flight

Industrial price boosts should remain in the moderate range—not only near-term but through 1988 and into 1989.

So say DRI analysts. Pore through the consulting firm's detailed table prepared especially for *Purchasing-World* readers, and it becomes clear that there could even be some deceleration in some product lines—if not next year, then certainly by 1989.

The projections can best be summarized by zeroing in on the big Lexington, MA-based company's overall industrial producer price forecast. After accelerating from a negative 3.6% figure last year to positive 2.4% and 3.7% readings in 1987 and 1988, respectively, a modest drop to 3.2% is envisioned for 1989.

Why the restrained advances? Much of it can be explained by continued unimpressive growth. GNP, for example, is expected to advance only 2.9% and 2.1% in 1988 and 1989. A similar lackluster pattern is seen for industrial production where the 1988 and 1989 gains will be 3.1% and 2.2%, respectively.

Another factor behind the continuing non-inflationary forecast could be the lack of any big wage increases. DRI's projections here for hourly production worker pay: 2.4% this year, 3.6% in 1988, and 3.8% in 1989.

Keeping all the above in mind, here's a detailed product-by-product price outlook over the next few years:

■ **Refined petroleum products:** The worst of the current runup seems to be over. Overall product prices, after rising at an average quarterly rate of 7.3% this year, should slow down. Quarterly rates of advance of 0.7% and 1.4% are seen for 1988 and 1989.

■ **Chemicals:** The pattern here follows that of oil—with escalation rates (highly dependent on petrochemicals) slowing down over time. Industrial chemical rates of increase are targeted to drop from an estimated 2.3% a quarter this year to just 0.3% and 0.2% in 1988 and 1989.

■ **Steel:** Average product prices will move up 1.8% this year, 3.9% in 1988, and 4.2% in 1989. But advances in heavy structural shapes over the latter two years could be somewhat higher (5% and 4.2%) because of a strong non-residential construction market. On the other hand, alloy oil well drilling casing will remain weak this year (falling 4.1%)—though 6%-plus boosts are anticipated here in 1988 and 1989 as drilling activity picks up.

■ **Nonferrous metals:** Prices should hold relatively steady over the rest of the year following an early 1987 runup. After that, however, some additional advances are indicated. Prices will move up about 4% next year. But as demand gains become harder to come by, a deceleration to 2.5% is suggested for 1989.

■ **Construction materials:** Structural clay products (dependent on a weakening residential market) should show only a 2.5% annual rate of gain through 1989. Ditto glass, sand, and cement-related items which will only move up at an annual 2-3% rate. But fabricated structural steel (dependent on stronger non-residential activity) will move up 5.6% a year.

■ **Machinery:** Prices will firm on an improved domestic investment outlook and somewhat higher exports. The overall price pattern: increases of 2.2% this year, followed by gains of 4% next year and 3.4% in 1989. On a less aggregate level, electrical equipment will increase 2% this year, 4.3% in 1988, and 4.8% in 1989. As for general purpose machinery and equipment, the projected rises are 1.4% this year, 3.3% next year, and 3.9% in 1989.

■ **Electronic components:** In response to healthy demand for computers and other equipment, a depreciated dollar, and pressure on the Japanese to increase prices, quotes are projected to strengthen this year and remain strong through the forecast period. Averages for electronic components will advance 1.2% in 1987, 3.9% in 1988, and 6% in 1989. Zero in on semiconductors and related devices and the increases progress from 0.9% to 2.4% to 5.3% from 1987 to 1989.

■ **Transportation:** Rising fuel prices and mergers will make for 7.6%, 5.6%, and 5% increases in air fares over the 1987-1989 period. Rail rates will also sport significant increases—following an expected 0.8% decline this year. The projections here: up 3.9% in 1988 and 4.4% in 1989. Looking at transportation costs overall, DRI puts the increases at 3.1% this year, 5.7% next year, and 5% in 1989.

Product price trends into late 1989

(comparison of 3rd quarter pricing)

Product	Percent change 87/86	88/87	89/88
Raw materials, energy			
Lubricating oil materials	9.8	8.7	8.5
Industrial chemicals	7.7	3.8	0.5
Misc. chemical products	1.8	1.7	2.8
Metal			
Steel mill products	1.8	4.3	4.3
HR carbon bar	2.4	4.8	5.8
Hot-dip galv. sheet	4.2	4.8	3.8
Foundry & forge shop prod.	1.4	4.4	3.7
Copper cathode	1.1	3.5	2.3
Secondary nonferrous	3.8	2.3	1.7
Pig lead	5.8	4.5	0.5
Titanium mill shapes	-1.2	2.2	3.4
Components			
Rubber belts & belting	-0.2	1.8	3.8
Corrugated cartons	10.3	2.4	2.7
Electronic components	0.8	4.3	6.2
Mfg. components	1.9	4.2	4.2
Containers	4.3	3.8	3.7
Construction products			
Plastic construction prod.	0.7	1.1	1.1
Plumbing fixtures & fittings	2.5	4.5	2.8
Heating equipment	2.3	4.3	3.8
Bituminous paving material	-3.1	4.1	7.3
Machinery			
Pumps & compressors	1.5	2.7	3.1
Motor & generators	1.8	6.8	5.5
Internal combustion engines	3.1	5.2	4.8
Trucks (under 10,000 lb.)	5.4	3.8	6.8

Source: Data Resources, Inc. Cost Forecasting Services

Midyear Economic Report

PMs hatch plans for good year

The nation's industrial purchasing executives agree with those who believe that, while things could be better, 1987 isn't going to turn out to be that bad.

A new nationwide survey of *PurchasingWorld* readers finds that 93% of the respondents are expecting their companies to rack up production and sales gains this year. Equally significant, there's little sign of any imminent deceleration—67% see the second half as better than the first half, while 27% see some slowdown, and 6% anticipate little change (see chart).

This upbeat scenario is also suggested by a recent N.A.P.M. Business Survey Committee study which finds that 47% of its members expect the second half to top the first half, 37% expect no change, and 16% expect it to be worse. And the optimism doesn't stop there. The N.A.P.M. study is equally bullish about first quarter 1988. Those looking forward to further gains top those seeing declines by a ratio of 8 to 1.

Even more reassuring is the fact that nearly 60% of N.A.P.M. respondents now describe themselves as being satisfied or optimistic—the highest reading in three years.

The buyers' inflation outlook isn't bad. Some acceleration in the rate of rise is anticipated, but the general feeling is that it will be manageable.

The *PurchasingWorld* study finds that more than half the respondents still hope to keep 1987 price increases to 4% or under. And the 1987 average increase for all buyers is projected to be 4.5%.

That's not to say that the surveyed buyers are complacent. Nearly two-thirds expect a higher rate of increase in the second half as compared to the first half of the year. But the majority of these PMs (62% out of a total of 65% who see such acceleration) say that any speedup in the rate of rise will be "modest" rather than "sharp."

Here again, confirmation comes from the N.A.P.M. Business Survey Committee. While 75% of these top industrial buyers expect higher prices over the next six months, nearly all say the boosts should be selective rather than across the board, and slight or moderate rather than severe.

The two surveys also indicate reassuring trends in these other sectors of the economy as well:

- Inventory accumulation over the next six months will be kept to a minimum, virtually ruling out any new boom and bust inventory cycle.
- Capital spending sights are being raised. But the 38% of N.A.P.M. respondents who expect an increase this year is balanced by 37% who see declines. That's an improvement over six months ago when the higher/lower ratio was 29% to 40%.
- The foreign trade deficit may be ready to shrink a bit. About 57% of the N.A.P.M. respondents note an improvement in export orders—and 40% report some reduction in imports.

PurchasingWorld's own survey also hints at some change in import trends. Several buyers note a shift from offshore to domestic procurement.

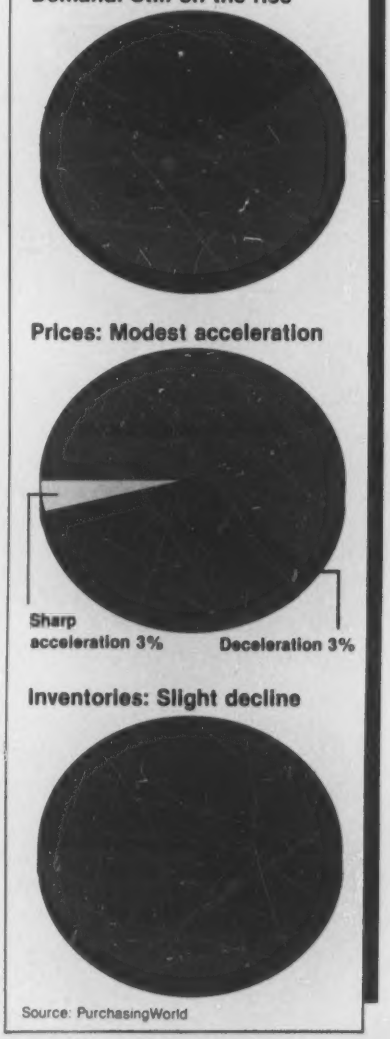
A continued increase in domestic business, however, could mean some leadtime stretchout. A significant 35% of *PurchasingWorld* survey respondents, for example, now look for some second-half extensions. This is about twice the 16% who feel some speedup is possible. But most buyers feel any problems will be manageable.

Keeping things manageable is also behind some of the current strategies being cited by buyers. Increasing competitive conditions are making for more emphasis on price guarantees, value analysis, detailed cost justifications for boosts, blanket and long-term contracts, just-in-time inventorying, order consolidations, and better internal forecasting.

The current PM thinking is best summed up by one Gulf Coast executive who notes that flexibility and willingness to change is the name of the game. "Our thinking in such areas as sourcing, contractual agreements, and inventorying has undergone significant change—with more innovative moves planned in these and other areas over the next year or so."

PW readers look at near-term trends

(2nd half '87 vs. 1st half '87)



Source: PurchasingWorld

Midyear Economic Report

GNP = growth, nurturing, protection

The nation's top econometric forecasting modelers are sticking to their guns. Six months ago, the average of those surveyed by *PurchasingWorld*—DRI, Wharton, and Merrill Lynch—was pointing to a 2.4% real GNP growth rate for the current year. As of now (see table), that number hasn't changed.

There has been some minor downgrading as far as forecasts for 1988 are concerned, with the earlier 3.1% GNP growth estimate for that year dropping to 2.7%. Even so, this suggests some marginal improvement over the estimate of 2.4% for the current year.

This modest year-to-year gain also carries over into the industrial production sector. This year's estimated 2.2% increase will rise to 2.9% in 1988. If correct, 1988 will mark the sixth consecutive year of economic gain—a remarkable performance in itself.

More important, these numbers refute the gloomy predictions of some who have recently been hedging their bets and calling for a possible downturn in the near future. The fact that three prestigious models—each with its own set of equations—are pointing in the same direction has to be regarded as a positive sign.

Commenting on this, one Wharton spokesman attributes part of this optimism to an anticipated turnaround in our real trade deficit. His estimates suggest that the deficit will drop by nearly $25 billion (in 1982 dollars) over the 1986-88 period.

Prices don't seem to present much of a worry to these econometricians, despite the recent concern about accelerating inflationary pressures. That's not to say that the average 2.5% finished producer price index advance isn't above the earlier 2.2% projection, but it's hardly an earth-shaking change.

Also reassuring as far as 1987 prices go is the fact that the GNP price deflator (the all-inclusive barometer that includes services and consumer prices as well as producer quotes) remains at the 3% level suggested at the beginning of the year.

The price groundrules for next year aren't likely to change that much, either, even though 1988's average GNP and finished producer price gains (estimated at 4.2% and 4.5%, respectively) are about 1-2 percentage points above forecasted 1987 readings. But again, this is what the models were predicting for 1988 six months ago.

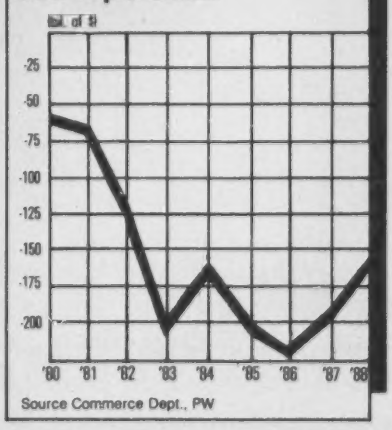
Interest rates aren't going to be much of a problem, either, if model projections are anywhere on target. This year's 12-month average 8.1% reading for the prime rate, for example, suggests a second half 1987 leveling off after recent advances. And the same goes for 1988 when the three-model average holds in the 8.2% range.

Also on the reassuring side: There is surprisingly little variation among the models. Only about one percentage point separates next year's estimates of GNP. ***PW***

PW's econometric model printout

	1987	1988
Real GNP (% change)		
DRI	2.8	2.9
Wharton	2.3	3.0
Merrill Lynch	2.2	2.2
AVERAGE	**2.4**	**2.7**
Industrial production (% change)		
DRI	2.4	3.1
Wharton	2.2	3.3
Merrill Lynch	2.0	2.3
AVERAGE	**2.2**	**2.9**
GNP price deflator (% change)		
DRI	2.7	3.4
Wharton	3.2	4.3
Merrill Lynch	3.2	4.8
AVERAGE	**3.0**	**4.2**
Finished producer prices (% change)		
DRI	2.5	3.9
Wharton	2.5	4.7
Merrill Lynch	2.6	5.0
AVERAGE	**2.5**	**4.5**
Consumer prices (% change)		
DRI	3.5	4.4
Wharton	3.6	4.6
Merrill Lynch	3.9	5.2
AVERAGE	**3.7**	**4.7**
Prime interest rate (%)		
DRI	7.6	7.6
Wharton	7.9	8.7
Merrill Lynch	8.9	8.4
AVERAGE	**8.1**	**8.2**
Unemployment rate (%)		
DRI	6.5	6.2
Wharton	6.7	6.5
Merrill Lynch	6.7	6.8
AVERAGE	**6.6**	**6.5**

Budget deficit: Slow improvement



Source Commerce Dept., PW

Prices: slight acceleration

Source: Commerce Dept., BLS, PW